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CATTLE INDUSTRY OUTLOOK BRIGHTENS

The cattle industry has been through a lot in recent years, including BSE, restricted exports, multi-year droughts in western states, drought in the southeast in 2007, and fears of corn prices being above \$4.00 a bushel. It's no wonder cow-calf producers have leaned more to liquidation than expansion. However, all of these traumas appear to have provided for a much more optimistic outlook for the rest of 2007 and 2008.

Cattle prices have been on a roll in recent months. In the first-half of 2007, per capita beef production was down about 1 percent yet finished cattle prices were up 9 percent. Positive price signals are part of the outlook as well, including smaller per capita beef supplies over the next 12 months, a beef breeding herd that is headed downward, and strong domestic demand. It now appears that 2007 will provide record high finished cattle prices, averaging near \$92 per hundredweight. Brood-cow producers will also be pleasantly surprised by near record calf prices this fall and winter as both the optimism of finished cattle prices and the recent sharp drop in corn prices are reflected in upward adjustments to calf prices.

The numbers in the just released USDA semi-annual *Cattle inventory* and monthly *Cattle on-Feed* reports reinforce the optimism. The total number of cattle and calves on July 1, at 104.8 million head, is down slightly from year-previous levels. Beef cow numbers were down by 0.4 percent. While this is a modest reduction, it indicates that cow-calf producers have put the expansion phase of the cattle cycle on hold. Beef cow numbers reached a low in 2004 and expanded a small amount in 2005 and 2006. The reduction of 100,000 beef cows in the last 12 months now puts numbers back near the lows of 2004. Just as importantly, producers are indicating that they do not intend to expand the herd in coming months as there is currently a 6 percent reduction in the number of beef replacement heifers being held to go back into breeding herds. The number of cattle placed on feed in June was down 15 percent, and below pre-report estimates. Placements of cattle weighing less than 700 pounds were down 27 percent. Even those weighing 700 pounds or more were down about 3 percent.

While beef cow producers have been pointing to smaller numbers, dairy producers are thinking bigger as milk prices moved from under \$15 per hundredweight at the start of the year to over \$20 this summer. Milk cow numbers, at 9.15 million head, are unchanged from year-ago numbers, but the number of dairy heifers being retained to go back into the herd is up 100,000 head, or nearly 3 percent.

Beef supplies for the next 12 months are expected to be somewhat lower than in the same period one year earlier. With population growth, this means per capita supplies will actually be down and provides a basis for strong finished cattle prices. Nebraska finished steer prices are expected to average in the \$88 to \$92 range in the summer quarter. Prices for the last quarter are expected to be higher, in the \$90 to \$95 range. For 2008, first quarter prices may fall in a range from \$92 to \$96 with the second quarter stretching to \$94 to \$98. While these are very strong prices, live cattle futures prices are even more optimistic. If these forecasts are valid, 2007 will be a record high cattle price year, exceeding by more than \$4.00 per hundredweight the previous record year in 2005 when Nebraska steers averaged \$87.28.

Feeder cattle and calf prices will feel the upward price impacts of strong finished cattle prices and more moderated corn prices. Feeder steers weighing 750 to 800 pounds are expected to average in the \$110 to \$115 range this fall. Calf prices will be much more encouraging to cow-calf producers than had been expected. Last fall and winter, 500-550 pound steer calves averaged about \$120 per hundredweight at Oklahoma City. For this fall and winter, those prices are now expected to be in the \$130 to \$135 range. Eastern corn belt calves tend to be about \$3 to \$5 lower.

With the brighter outlook the cattle industry will begin to rethink their current "smaller is better" strategy. Finished cattle weights will likely move higher, calves will begin to flood into the feedlots, and cow-calf producers will begin to think about retaining some of those heifer calves rather than sending them to market. The industry has been through so much in recent years, so maybe the first thing to do is just enjoy the improved prospects for a bit.

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